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October 10, 2000

VIA OVERNIGHT DELIVERY

K. David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

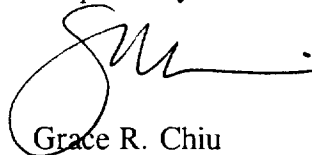
Re: Application of McLeodUSA Telecommunications Services, Inc. and
CapRock Telecommunications Corp. for Authority to Transfer
Certificate of Public Convenience and Necessity

Dear Mr. Waddell:

Enclosed for filing on behalf of McLeodUSA Telecommunications Services, Inc. and CapRock Telecommunications Corp. are an original and thirteen (13) copies of the above referenced application. Also enclosed is a check in the amount \$25.00 in payment of the requisite filing fee.

Please date-stamp the enclosed extra copy of this Application and return it in the self-addressed, postage-paid envelope provided herein. Should you have any questions concerning this filing, please do not hesitate to contact us.

Respectfully submitted,



Grace R. Chiu
Heather A. Thomas

Counsel for
McLeodUSA Telecommunications Services, Inc. and
CapRock Telecommunications Corp.

Enclosures

cc: David R. Conn (McLeod)
William A. Haas (McLeod)
Michael G. Donohoe (CapRock)
Andrew D. Lipman (wo/encl.)

POSTED
10-12-00

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY
OF THE STATE OF TENNESSEE**

RECEIVED THE
REGULATORY AUTHORITY
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EXECUTIVE SECRETARY

Joint Application of)
)
)
McLEODUSA TELECOMMUNICATIONS,)
SERVICES, INC.)
)
and)
)
CAPROCK TELECOMMUNICATIONS)
CORP.)
)
for Approval to Transfer Certificate)
of Public Convenience and Necessity)
_____)

Docket No. 00-00906

JOINT APPLICATION

McLeodUSA Telecommunications Services, Inc. (“MTS”) and CapRock Telecommunications Corp. (“CapRock”) (together, the “Parties”), by their undersigned counsel and pursuant to Tenn. Code Ann. § 65-4-113, hereby request TRA approval of the proposed transfer of CapRock’s Certificate of Public Convenience Necessity (“Certificate”) to MTS. CapRock is a nondominant carrier that holds a Certificate authorizing it to operate as a Competing Telecommunications Service Provider within the State of Tennessee, as set forth below. MTS is a nondominant carrier that holds a Certificate authorizing it to operate as reseller of telecommunications and operator services within the State of Tennessee.

Although CapRock and MTS currently are not affiliated with one another, at the time the Parties plan to transfer the Certificate, CapRock and MTS will be under common ownership and

control. Specifically, MTS's holding company parent, McLeodUSA Incorporated ("McLeod"), plans to merge with the holding company parent of CapRock. As a result of the merger, CapRock will be an indirect, wholly owned subsidiary of McLeod and an affiliate of MTS. The proposed transfer of CapRock's Certificate to MTS is part of McLeod's overall plan to consolidate the operations of its operating subsidiaries into a single subsidiary, MTS.

CapRock currently does not serve any local exchange customers in the State of Tennessee. Accordingly, no Tennessee customers will be affected by the transfer of CapRock's Certificate to MTS. Following the transfer of CapRock's Certificate, MTS will market competitive local exchange services to Tennessee customers, in addition to the long distance services it currently provides in Tennessee pursuant to its own certification.

The Parties respectfully request expedited treatment of this Application in order to permit them to consummate the proposed transfer of Certificate as soon as possible but no later than November 30, 2000. In support of this Application, the Parties submit the following information.

I. THE PARTIES

A. McLeodUSA Telecommunications Services, Inc. ("MTS")

MTS is an Iowa corporation and a wholly owned subsidiary of McLeod, a Delaware holding company that is publicly traded on the NASDAQ stock exchange under the stock symbol "MCLD."^{1/} MTS is a nondominant carrier that provides integrated telecommunications services to small- and medium-size business and residential customers and governmental entities. MTS offers integrated telecommunications including local services in its 21-state footprint, primarily in the Midwest, Rocky Mountain and Pacific Northwest states; long distance and advanced data services are available

^{1/} McLeod is one of the leading telecommunications companies in the United States. Further information regarding McLeod is provided in Section III.B. of this Application.

in all states except Alaska and Hawaii. In Tennessee, MTS is authorized to operate as reseller of telecommunications and operator services within the State of Tennessee pursuant to the Certificate granted by the TRA, by Order issued in Case 96-01632, on March 25, 1997. MTS also provides interstate and international telecommunications services as a nondominant carrier pursuant to authority of the Federal Communications Commission ("FCC").

Further information regarding MTS's qualifications to provide telecommunications services in the State of Tennessee was filed with its application for certification, as referenced above, and is therefore already a matter of public record. The Parties respectfully request that the TRA take official notice of that information and incorporate it by reference herein.

B. CapRock Telecommunications Corp. ("CapRock")

CapRock is a Texas corporation, whose principal offices are located at 15601 Dallas Parkway, Suite 700, Addison, Texas 75001. CapRock is a provider of facilities-based integrated communications services, including local and long distance services, to businesses and carriers in states in the Southwestern U.S. In Tennessee, CapRock is authorized to provide a fully array of telecommunications services, including local exchange services, on a facilities-based and resale basis, pursuant to a Certificate to operate as a Competing Telecommunications Service Provider granted by the TRA, by Order issued in Docket No. 99-00852, February 22, 2000. CapRock is also authorized to provide facilities-based and/or resold intrastate interexchange telecommunications services in over 40 other states.

CapRock is a wholly owned subsidiary of CapRock Communications Corp. ("CCC"), a Texas holding company that is publicly traded on the NASDAQ stock exchange under the stock symbol "CPRK." Through its operating subsidiaries, CCC offers local, long-distance, Internet, data

and private line services to business customers. CCC also provides switched and dedicated access, regional and international long distance, private lines, dark fiber and bandwidth to carrier customers. CCC's business plans include the construction of extensive fiber, voice and data networks throughout Texas, Louisiana, Arkansas, Oklahoma, New Mexico and Arizona.

Further information concerning CapRock's qualifications to provide telecommunications services in the State of Tennessee was filed with its application for certification, as referenced above, and is therefore already a matter of public record. The Parties respectfully request that the TRA take official notice of that information and incorporate it by reference herein.

C. Designated Contacts

Questions or correspondence concerning this Application should be directed to:

Grace R. Chiu
Heather A. Thomas
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
(202) 424-7500 (Tel)
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with a copy to:

David R. Conn
Vice President and Deputy General Counsel
McLeodUSA Incorporated
P.O. Box 3177
Cedar Rapids, IA 52406-3177

and:

Michael G. Donohoe
Vice President, Legal Counsel
CapRock Communications Corp.
15601 Dallas Parkway, Suite 700
Addison, Texas 75001

II. REQUEST FOR APPROVAL OF TRANSFER OF CERTIFICATE

A. Description of the Transaction

As stated above, CapRock and MTS currently are not affiliated with one another. However, at the time the Parties plan to transfer the Certificate, CapRock and MTS will be under common ownership and control. Specifically, MTS's parent, McLeod plans to merge with CapRock's holding company parent, CCC. As a result of the merger, CapRock will be an indirect, wholly owned subsidiary of McLeod and an affiliate of MTS. The proposed transfer of CapRock's Certificate to MTS is part of McLeod's overall plan to consolidate the operations of its operating subsidiaries into a single subsidiary, MTS. As soon as practicable following the merger with CCC, McLeod will consolidate the operations of CapRock with those of MTS by transferring CapRock's assets, including its Certificate, to MTS.

CapRock currently does not serve any local exchange customers in the State of Tennessee. Accordingly, no Tennessee customers will be affected by the transfer of CapRock's Certificate to MTS. Following the transfer of CapRock's Certificate, MTS will market competitive local exchange services to Tennessee customers, in addition to the long distance services it currently provides in Tennessee pursuant to its own certification.

The Parties intend that following the transfer of Certificate and consolidation of the Tennessee operations of CapRock with those of MTS, MTS will be led by a McLeod regional team of well-qualified telecommunications managers comprised, in part, of existing CapRock personnel. The executive team directing sales and operational activities in Oklahoma will include Jere W. Thompson, Jr., Leo Cyr, T. George Hess and Steve Shirar, in addition to McLeodUSA's senior executives including Stephen C. Gray, Roy Wilkens and Lyle Patrick. The Parties expect that the

substantial managerial, technical and financial expertise of the combined management team will enable MTS to continue providing high quality, uninterrupted service to the existing customers of CapRock, as well as to expand MTS's service offerings and customer base.

B. Qualifications of MTS to Provide Local Services

MTS is an experienced provider of local exchange services and is well qualified to provide such services in the State of Tennessee. As stated above, MTS currently offers integrated telecommunications including local exchange services in 21 states, primarily in the Midwest, Rocky Mountain and Pacific Northwest states. In granting MTS certification to operate as a reseller of telecommunications and an operator service provider in Tennessee, the Commission has already found MTS qualified to provide intrastate telecommunications services to Tennessee consumers. In addition to its own expertise and resources, MTS relies upon the substantial financial, managerial and technical resources of its parent, McLeod, one of the leading telecommunications companies in the U.S.

Since its inception in 1991, McLeod has aggressively pursued its goal to be the leading provider of integrated telecommunications services in the market areas it targets. McLeod has grown rapidly over the last several years, expanding its existing networks, developing new networks, and increasing its service offerings. A facilities-based telecommunications provider, McLeod has over 360 ATM switches, 37 voice switches, nearly 824,000 local lines, and over 10,000 route miles of fiber optic network, and employs over 9,100 employees. McLeod recently expanded its marketplace for advanced data and Internet services to all 50 states through the acquisition of Splitrock Services, Inc. ("Splitrock"). The Splitrock network, which is capable of transmitting

integrated next-generation data, video and voice services, reaches 800 cities and 90 percent of the U.S. population.

McLeod's annual revenues have grown from in excess of \$ 23 million for 1994 to more than \$908 million for 1999. For the quarter ended June 30, 2000, total revenues were a record \$331.8 million, compared to \$222.7 million for the same period one year ago, an increase of 49 percent. The growth of McLeod has been funded, in part, through net proceeds of approximately \$388 Million from McLeod's 1996 initial and secondary public offerings of common stock, and private sales of equity securities yielding proceeds of \$41 Million. In September 1999, McLeod welcomed Forstmann Little & Co., a New York-based investment firm, as a long-term strategic partner. Forstmann Little provided a \$1 billion infusion, purchasing a 12 percent stake in McLeod. In May of this year, McLeod secured a bank credit facility of \$1.3 billion, funding its business plan at favorable rates. Attached hereto as Exhibit A is a copy of McLeod's financial statements, as filed with the Securities and Exchange Commission, containing information regarding the financial condition of McLeod.

McLeod is led by its founder, Clark McLeod, one of the most respected and influential leaders in the telecommunications industry. Mr. McLeod's previous business venture, Teleconnect was founded in 1980. As chairman and chief executive officer of Teleconnect and President of Telecom*USA, the successor of Teleconnect, Mr. McLeod was responsible for the transformation of this venture, by 1990, into the fourth largest U.S. long distance carrier. In August 1990, Telecom*USA was purchased by MCI for \$1.25 billion.

Backed by McLeod's substantial financial resources, and supported by a management team with proven experience in the telecommunications industry, MTS is well qualified to provide

competitive local exchange services in the State of Tennessee pursuant to the Certificate granted to CapRock.

III. PUBLIC INTEREST CONSIDERATIONS

Grant of this Application will serve the public interest, convenience, and necessity for several reasons. First, the consolidation of CTC's Tennessee operations with those of MTS will create a significantly larger entity committed to bringing competitive integrated telecommunications to consumers in small- and medium-size markets that are usually not targeted by other telecommunications providers. As a result, consumers in these markets will receive the many benefits of competition, including superior customer service and expanded service offerings.

Second, the combination of the existing management and work force of the two companies will strengthen their collective ability to bring competitive telecommunications services to consumers in the State of Tennessee. Each company's executive management team possesses extensive telecommunications experience, from which the combined company will benefit. The proposed transactions will also allow the Parties to manage their telecommunications operations more efficiently, thereby permitting greater investment in facilities, customer services, and technological innovation. As such, the Parties anticipate that the contemplated business combination will result in a company better equipped to accelerate its growth as a competitive telecommunications service provider.

In addition, the combined resources of the new business structure will give these companies greater access to capital markets, ultimately enabling MTS to continue to improve and expand its competitive service offerings to the Tennessee public. The proposed transfer of CapRock's Certificate and related transactions will therefore benefit the public interest by ensuring the continued

provision of high quality and innovative telecommunications services to Tennessee customers and should promote competition in the Tennessee telecommunications service market.

IV. CONCLUSION

Wherefore, for the reasons stated herein, the Parties respectfully request that the TRA approve this Application to permit the proposed transfer of CapRock's Certificate as soon as possible but no later than November 30, 2000, and grant all other relief as necessary and appropriate to effectuate the transactions described herein.


Respectfully submitted,

Mc LEODUSA TELECOMMUNICATIONS
SERVICES, INC.
CAPROCK TELECOMMUNICATIONS CORP.

David R. Conn
Vice President and Deputy General Counsel
McLeodUSA Incorporated
P.O. Box 3177
Cedar Rapids, IA 52406-3177

Michael G. Donohoe
Vice President, Legal Counsel
CapRock Communications Corp.
15601 Dallas Parkway, Suite 700
Addison, Texas 75428

Dated: October 10, 2000



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THEIR COUNSEL

LIST OF EXHIBITS

Financial Statements of McLeodUSA Incorporated A

Verifications

EXHIBIT A

**FINANCIAL STATEMENTS OF
McLEODUSA INCORPORATED**

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
McLeodUSA Incorporated:

We have audited the accompanying consolidated balance sheets of McLeodUSA Incorporated (a Delaware corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of McLeodUSA Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McLeodUSA Incorporated and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 26, 2000
(except with respect to the matters discussed in
Note 16, as to which the date is February 29, 2000)

McLEODUSA INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Millions, Except Shares)

	December 31.	
	1999	1998
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 326.9	\$ 455.1
Investment in available-for-sale securities	934.1	136.6
Trade receivables, net	183.8	116.4
Inventory	27.5	12.8
Deferred expenses	39.2	26.7
Prepaid expenses and other	58.0	45.6
Total current assets	<u>1,569.5</u>	<u>793.2</u>
Property and Equipment		
Land and building	85.1	60.3
Telecommunications networks	635.9	307.3
Furniture, fixtures and equipment	267.2	138.3
Networks in progress	453.2	185.5
Building in progress	1.2	12.6
	<u>1,442.6</u>	<u>704.0</u>
Less accumulated depreciation	<u>172.6</u>	<u>74.3</u>
	<u>1,270.0</u>	<u>629.7</u>
Investments, Intangibles and Other Assets		
Other investments	35.9	35.9
Goodwill, net	957.1	289.6
Other intangibles, net	290.2	112.4
Other	80.4	64.4
	<u>1,363.6</u>	<u>502.3</u>
	<u>\$4,203.1</u>	<u>\$1,925.2</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Current maturities of long-term debt	\$ 14.4	\$ 8.2
Contracts and notes payable	.1	4.5
Accounts payable	109.6	62.0
Accrued payroll and payroll related expenses	26.2	13.6
Other accrued liabilities	92.2	63.8
Deferred revenue, current portion	24.1	11.0
Customer deposits	30.1	16.8
Total current liabilities	<u>296.7</u>	<u>179.9</u>
Long-Term Debt, less current maturities	1,763.8	1,245.2
Deferred Revenue, less current portion	15.8	16.8
Other Long-term liabilities	18.3	20.5
	<u>2,094.6</u>	<u>1,462.4</u>
Redeemable convertible preferred stock		
Preferred, Series B, redeemable, convertible, \$.01 par value, authorized, issued and Outstanding 1999 275,000; 1998 none	687.5	—
Preferred, Series C, redeemable, convertible, \$.01 par value, authorized, issued and Outstanding 1999 125,000; 1998 none	312.5	—
	<u>1,000.0</u>	<u>—</u>
Stockholders' Equity		
Capital stock:		
Preferred, Series A, \$.01 par value: authorized, issued and outstanding 1999 1,150,000 shares; 1998 none	—	—
Common, Class A, \$.01 par value: authorized 250,000,000 shares: issued and outstanding 1999 157,587,012 shares and 1998 127,358,350 shares	1.6	1.3
Common, Class B, convertible, \$.01 par value: authorized 22,000,000 shares: issued and outstanding 1999 none; 1998 none	—	—
Additional paid-in capital	1,523.5	716.5
Accumulated deficit	(491.3)	(253.3)
Accumulated other comprehensive income (loss)	74.7	(1.7)
	<u>1,108.5</u>	<u>462.8</u>
	<u>\$4,203.1</u>	<u>\$1,925.2</u>

The accompanying notes are an integral part of these consolidated financial statements.

MCLEODUSA INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In Millions, Except Per Share Data)

	Year Ended December 31,		
	1999	1998	1997
Revenue:			
Telecommunications:			
Local and long distance	\$ 456.0	\$ 271.2	\$110.0
Local exchange services	78.4	67.8	16.1
Private line and data	80.1	40.1	17.2
Network maintenance and equipment	36.3	32.9	21.0
Other telecommunications	30.1	27.8	9.9
TOTAL TELECOMMUNICATIONS REVENUE	680.9	439.8	174.2
Directory	209.2	144.9	81.1
Telemarketing	18.7	19.4	12.6
TOTAL REVENUE	908.8	604.1	267.9
Operating expenses:			
Cost of service	457.1	323.2	151.2
Selling, general and administrative	392.7	260.9	148.2
Depreciation and amortization	190.7	89.1	33.3
Other	—	5.6	4.6
TOTAL OPERATING EXPENSES	1,040.5	678.8	337.3
OPERATING LOSS	(131.7)	(74.7)	(69.4)
Nonoperating income (expense):			
Interest income	42.6	26.0	22.7
Interest (expense)	(136.8)	(78.2)	(34.6)
Other income	5.6	2.0	1.4
TOTAL NONOPERATING INCOME (EXPENSE)	(88.6)	(50.2)	(10.5)
LOSS BEFORE INCOME TAXES	(220.3)	(124.9)	(79.9)
Income taxes	—	—	—
NET LOSS	(220.3)	(124.9)	(79.9)
Preferred stock dividend	(17.7)	—	—
NET LOSS APPLICABLE TO COMMON SHARES	<u>\$ (238.0)</u>	<u>\$ (124.9)</u>	<u>\$ (79.9)</u>
Basic and diluted loss per common share	<u>\$ (1.61)</u>	<u>\$ (.99)</u>	<u>\$ (.73)</u>
Weighted average common shares outstanding	<u>147.7</u>	<u>125.6</u>	<u>109.9</u>
Other comprehensive income (loss):			
Unrealized gains on securities:			
Unrealized holding gains (losses) arising during the Period	83.4	3.0	(2.5)
Less: Reclassification adjustment for gains included in Net income	(7.0)	(2.2)	—
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	76.4	.8	(2.5)
COMPREHENSIVE LOSS	<u>\$ (161.6)</u>	<u>\$ (124.1)</u>	<u>\$ (82.4)</u>

The accompanying notes are an integral part of these consolidated financial statements.

MCLEODUSA INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(In Millions, Except Shares)

	Common Stock		Additional	Accumulated		Accumulated	Total
	Class A	Class B	Paid-in Capital	Deficit	Other Comprehensive Income		
Balance, December 31, 1996	\$0.4	\$0.2	\$ 450.7	\$ (47.8)	\$ —	\$ 403.5	
Net loss	—	—	—	(79.9)	—	(79.9)	
Issuance of 1,137,883 shares of Class A Common stock	—	—	—	—	—	—	
Release of 56,177 shares of Class A common stock from escrow	—	—	0.9	—	—	0.9	
Issuance of 84,430 shares of Class A common stock in connection with the acquisition of Digital Communications of Iowa, Inc.	—	—	1.3	—	—	1.3	
Issuance of 8,488,596 shares of Class A Common stock in connection with the Acquisition of CCI	—	—	2.3	—	—	2.3	
Issuance of 55,500 shares of Class A common stock in connection with the acquisition of certain assets of OneTEL Corp.	—	—	223.6	—	—	223.6	
Issuance of 140,000 shares of Class A common stock in connection with the acquisition of ownership interests of Colorado Directory Company LLC	—	—	2.0	—	—	2.0	
Issuance of 38,080 shares of Class A common stock to participants in the Employee Stock Purchase Plan	—	—	4.5	—	—	4.5	
Conversion of 15,625,929 shares of Class B Common stock to 15,625,929 shares of Class A common stock	0.2	(0.2)	0.7	—	—	0.7	
Amortization of compensation expense related to stock options	—	—	3.0	—	—	3.0	
Other comprehensive income	—	—	—	—	(2.5)	(2.5)	
Balance, December 31, 1997	0.6	—	689.0	(127.7)	(2.5)	559.4	
Net loss	—	—	—	(124.9)	—	(124.9)	
Issuance of 1,353,785 shares of Class A common stock	—	—	3.7	—	—	3.7	
Issuance of 70,508 shares of Class A common stock in connection with the acquisition of NewCom Technologies, Inc. and NewCom OSP Services, Inc.	—	—	3.2	—	—	3.2	
Issuance of 151,019 shares of Class A Common stock in connection with the acquisition of certain assets of Communications Cable-Linking Company, Inc.	—	—	6.0	—	—	6.0	
Issuance of 70,672 shares of Class A common stock in connection with the acquisition of Inlet, Inc.	—	—	2.4	—	—	2.4	
Issuance of 82,602 shares of Class A common stock to participants in the 401(k) profit-sharing plans	—	—	2.6	—	—	2.6	
Issuance of 132,893 shares of Class A common stock to participants in the Employee Stock Purchase Plan	—	—	3.7	—	—	3.7	
Amortization of compensation expense related to stock options	—	—	5.9	—	—	5.9	
Other comprehensive income	—	—	—	—	0.8	0.8	
Balance, December 31, 1998	0.6	—	716.5	(252.6)	(1.7)	462.8	
Two-for-one stock split (Note 8)	0.7	—	—	(0.7)	—	—	
Net loss	—	—	—	(238.0)	—	(238.0)	
Issuance of 4,174,274 shares of Class A common stock	—	—	20.7	—	—	20.7	
Issuance of 25,397,456 shares of Class A common stock in connection with the acquisitions (Note 8)	0.3	—	487.7	—	—	488.0	
Issuance of 222,762 shares of Class A common stock to participants in the 401(k) profit-sharing plans	—	—	4.9	—	—	4.9	
Issuance of 313,909 shares of Class A common stock to participants in the Employee Stock Purchase Plan	—	—	4.4	—	—	4.4	
Issuance of 1,150,000 shares of Series A preferred stock	—	—	277.1	—	—	277.1	
Amortization of compensation expense related to stock options	—	—	6.9	—	—	6.9	
Issuance of 120,261 shares of Class A common stock to Series A preferred stock shareholders	—	—	5.1	—	—	5.1	
Other comprehensive income	—	—	—	—	76.4	76.4	
Balance, December 31, 1999	\$1.6	\$—	\$1,523.5	\$ (491.3)	\$74.7	\$1,108.5	

The accompanying notes are an integral part of these consolidated financial statements.

MCLEODUSA INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	Year ended December 31.		
	1999	1998	1997
Cash Flows from Operating Activities			
Net loss	\$ (220.3)	\$ (124.9)	\$ (79.9)
Adjustments to reconcile net loss to net cash (used in) operating activities:			
Depreciation	105.6	53.3	17.6
Amortization	85.1	34.7	15.7
Accretion of interest on senior discount notes	38.9	35.1	26.7
Changes in assets and liabilities, net of effects of acquisitions:			
(Increase) in trade receivables	(20.7)	(6.4)	(15.9)
(Increase) in inventory	(12.7)	(8.2)	(0.8)
(Increase) decrease in deferred expenses	(4.0)	0.9	1.2
(Increase) decrease in prepaid expenses and other	10.2	(34.3)	(1.0)
(Increase) in deferred line installation costs	(27.2)	(13.6)	(9.7)
Increase (decrease) in accounts payable and accrued expenses	(16.9)	32.2	27.1
Increase in deferred revenue	10.5	4.6	7.2
Increase in customer deposits	9.3	4.1	3.0
NET CASH (USED IN) OPERATING ACTIVITIES	(42.2)	(22.5)	(8.8)
Cash Flows from Investing Activities			
Purchase of property and equipment	(599.7)	(289.9)	(151.3)
Available-for-sale securities:			
Purchases	(1,247.3)	(607.4)	(116.0)
Sales	144.3	264.4	102.4
Maturities	391.5	242.0	133.8
Business acquisitions	(230.8)	(27.8)	(181.9)
Deposits on PCS licenses	—	—	(28.0)
Other	(8.9)	(5.2)	(1.8)
NET CASH (USED IN) INVESTING ACTIVITIES	(1,550.9)	(423.9)	(242.8)
Cash Flows from Financing Activities			
Payments on contracts and notes payable	(26.2)	(11.1)	(19.0)
Proceeds from long-term debt	485.8	583.9	506.6
Payments on long-term debt	(279.2)	(10.9)	(2.2)
Net proceeds from issuance of common stock	18.0	7.7	1.6
Net proceeds from preferred stock—Series A	278.1	—	—
Net proceeds from preferred stock—Series B and C	998.7	—	—
Payments of preferred stock dividends	(10.3)	—	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,464.9	569.6	487.0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(128.2)	123.2	235.4
Cash and cash equivalents:			
Beginning	455.1	331.9	96.5
Ending	<u>\$ 326.9</u>	<u>\$ 455.1</u>	<u>\$ 331.9</u>
Supplemental Disclosure of Cash Flow Information			
Cash payment for interest, net of interest capitalized 1999 \$23.0; 1998 \$10.7; 1997 \$4.4	<u>\$ 85.8</u>	<u>\$ 27.0</u>	<u>\$ 1.8</u>
Supplemental Schedule of Noncash Investing and Financing Activities			
Release of 112,354 shares of Class A common stock from escrow	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1.3</u>
Capital leases incurred for the acquisition of property and equipment	<u>\$ 10.3</u>	<u>\$ 5.9</u>	<u>\$ 3.4</u>

The accompanying notes are an integral part of these consolidated financial statements.

VERIFICATION

STATE OF IOWA :
 :
COUNTY OF LINN : ss.

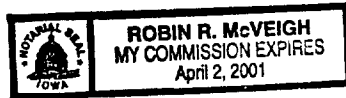
I, William A. Haas, being first duly sworn, state that I am Vice President and Deputy General Counsel of McLeodUSA Incorporated, the Applicant in the foregoing Application; that I am authorized to make this Verification on behalf of Applicant; that I have read the foregoing Application and know the contents thereof; and that the same are true and correct to the best of my knowledge, information, and belief.

William A. Haas

Sworn and subscribed before me this 5th day of October, 2000.

Robin R. McVeigh
Notary Public

My commission expires _____.



VERIFICATION

STATE OF TEXAS

:

:

ss.

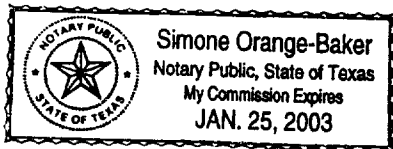
COUNTY OF DALLAS

:

I, Michael G. Donohoe, being first duly sworn, state that I am Assistant Secretary of CapRock Telecommunications Corp., the Applicant in the foregoing Application; that I am authorized to make this Verification on behalf of Applicant; that I have read the foregoing Application and know the contents thereof, and that the same are true and correct to the best of my knowledge, information, and belief.

Michael G. Donohoe

Sworn and subscribed before me this 29th day of September, 2000.



Simone Orange-Baker
Notary Public

My commission expires JANUARY 25, 2003